

Message Text

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ACTION EUR-25

INFO OCT-01 ISO-00 CIAE-00 PM-07 H-03 INR-11 L-03 NSAE-00

NSC-07 PA-04 RSC-01 PRS-01 SP-03 SS-20 USIA-15 IO-14

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TO SECSTATE WASHDC 9974

INFO AMEMBASSY ANKARA

AMEMBASSY ATHENS

AMEMBASSY LONDON

USMISSION NATO

USMISSION USUN

USMISSION EC BRUSSELS

USDOCOSOUTH

USNMR SHAPE

USCINCEUR

DIA WASHDC//DI-5//

C O N F I D E N T I A L NICOSIA 3074

EO 11652: GDS

TAGS: PFOR CY

SUBJ: CYPRIOT MIN OF FINANCE COMMENTS ON ECONOMIC PROBLEMS

RE: ATHENS 6619

1. SUMMARY: DURING MY COURTESY CALL SEPT 11 CYPRIOT FINMIN ANDREAS PATSALIDES DESCRIBED SOME OF THE ECONOMIC PROBLEMS PRESENTLY FACING GOVT. REVENUES ARE DOWN, EXPENDITURES UP, WITH INCREASED BUDGET DEFICIT INEVITABLE. CYPRIOT POUND REMAINS STABLE BUT UNEMPLOYMENT, INFLATION AND OTHER SIDE EFFECTS OF WAR ARE SERIOUS THREATS TO ECONOMY. SUBSTANTIAL FOREIGN ECONOMIC SUPPORT WILL BE NEEDED, AND CYPRUS IS NOT COUNTING ON GREECE ALONE FOR AID. GOVT IS NOT PLANNING FOR ECONOMY LIMITED TO SOUTHERN HALF OF ISLAND; IN PATSALIDES' VIEW, SUCH AN ECONOMY

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"COULD NOT BE VIABLE." END SUMMARY.

2. PATSALIDES STATED THAT DURING AUG CYPRIOT GOVT HAD REVENUE OF APPROXIMATELY TWO (2) MILLION POUNDS VERSUS EXPENDITURE OF FOUR AND ONE-HALF (4 1/2) MILLION POUNDS. MOST OF GOVT'S REVENUES STEM FROM IMPORT DUTIES; THESE WERE REDUCED SHARPLY DURING AUG. FULL COLLECTION OF TAXES NOT TO MENTION INCREASED TAXATION OUT OF QUESTION UNDER PRESENT CIRCUMSTANCES. WHILE GOVT HAS BEEN RUNNING DEFICIT DURING 1974, PATSALIDES SAID, INCREASINGLY LARGE DEFICIT SPENDING IS NOW INEVITABLE. SINGLE LARGEST FINANCIAL DRAIN IS MINISTERING TO NEEDS OF REFUGEE POPULATION.

3. CYPRIOT POUND REMAINS RELATIVELY STABLE. PATSALIDES NOTED, HOWEVER, THAT SINCE CURRENCY IS RELATIVELY ISOLATED FROM FOREIGN PRESSURES, SMALL COMFORT CAN BE TAKEN FROM THIS. WITH APPROX 70,000 CYPRIOTS UNEMPLOYED IN SOUTHERN HALF OF ISLAND, WITH INFLATION APPEARING BECUASE OF COMMODITY SCARCITY, AND WITH GENERAL UNCERTAINTY, ECONOMIC SITUATION OF POPULATION IS PRECARIOUS, WITH NO IMMEDIATE EXPECTATION OF QUICK IMPROVEMENT.

4. PATSALIDES SAID THAT INJECTION OF SUBSTANTIAL FOREIGN FINANCIAL SUPPORT WILL BE NEEDED TO MAINTAIN CYPRIOT ECONOMY. WHILE GREECE HAS PROMISED TO CONTRIBUTE EQUIVALENT OF 15 MILLION DOLLARS, HE NOTED THAT WEAK STATE OF GREEK ECONOMY MAKES IT UNLIKELY THAT CYPRUS COULD COUNT ON SUSTAINED BACKING FROM THAT SOURCE ALONE. (COMMENT: THIS CONTRADICTS STATEMENT BY GREEK UNDER SECRETARY FOR SOCIAL WELFARE, CONTAINED REFTEL, WHICH PROMISED 6.5 MILLION CYPRIOT POUNDS MONTHLY IN DIRECT BUDGETARY SUPPORT. END COMMENT.)

5. PATSALIDES DODGED QUESTION OF GOVT PLANNING FOR RESTRUCTURING ECONOMY SHOULD BE-FEDERATED STATE BECOME LONG TERM FACT OF LIFE. HE SAID ONLY THAT GIVEN POPULATION AND RESOURCE OF SOUTHER HALF OF ISLAND, ECONOMY LIMITED TO THIS AREA ALONE "COULD NOT REPEAT NOT BE VIABLE," POINTING OUT THAT ISLAND WAS TOO SMALL AND ECONOMIC SYSTEMS TOO INTERRELATED TO EXIST IN TWO INDEPENDENT STATES. CRAWFORD

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